

**REGULAR STATE BANKING BOARD MEETING
HELD BY CONFERENCE CALL
OFFICE OF THE COMMISSIONER
DEPARTMENT OF FINANCIAL INSTITUTIONS
2000 SCHAFER STREET, SUITE G
BISMARCK, NORTH DAKOTA**

July 14, 2005

The regular meeting of the State Banking Board was held in the Office of the Commissioner, Department of Financial Institutions, 2000 Schafer Street, Suite G, Bismarck, North Dakota. Chairman Karsky called the meeting to order at 9:03 a.m., Thursday, July 14, 2005, by conference call.

MEMBERS PRESENT: Timothy J. Karsky, Chairman (*Office*)
Ron Braseth, Member (*Mayville*)
Bill Daniel, Member (*Office*)
Lorren Henke, Member (*Wishek*)
Launa Moldenhauer, Member (*Office*)
Roger Monson, Member (*Finley*)
Anita Quale, Member (*Watford City*)

MEMBERS ABSENT: None

ALSO PRESENT: Robert J. Entringer, Secretary (*Office*)
Doug Grenz, Chief Examiner – Banks (*Office*)
Darrell Moon (*McVille*)

APPROVAL OF MINUTES

Chairman Karsky indicated the Board received copies of the minutes of the regular meeting held on May 12, 2005, and the special meeting of June 8, 2005. The May 12, 2005, minutes were amended per Member Quale. **It was moved by Member Quale, seconded by Member Braseth, and unanimously carried to approve the May 12, 2005, minutes as amended and the June 8, 2005, minutes as presented.**

MCVILLE STATE BANK, MCVILLE – APPLICATION TO ESTABLISH A FACILITY AT 321 HWY 15, NORTHWOOD

Chairman Karsky reviewed his June 27, 2005, memorandum for the Board noting the application was received May 3, 2005, and deemed complete on May 31, 2005. The applicant published notice of the application pursuant to the joint publication guidelines in the North Dakota Administrative Code and the comment period ended on May 20, 2005; no comments were received concerning the application.

The statutory criterion found in Section 6-03-13.3 of the North Dakota Century Code was reviewed with the Board.

Chairman Karsky reviewed the convenience and needs aspect of the application, noting the applicant presented a petition containing 38 names showing support for the establishment of the new facility in Northwood. There were no addresses for those individuals signing the petition indicating they are from Northwood; however, President Darrell Moon indicated a random survey of 42 individuals was done and they were asked to sign to show their support. Of the 42 asked, only 1 individual was not willing to sign, and three individuals were not from the Northwood area and were asked not to sign. President Moon was asked if all the individuals that signed the petition were from Northwood, and he indicated they were.

The discussion of the facility indicates it will cost approximately \$50,000 to renovate the premises in order for the bank to occupy the location and the expenditure will not result in exceeding the limitation of 65% of equity capital for fixed assets. The total deposits at the end of the third year are projected to be \$3 million, along with \$3 million in loans. Therefore, it appears the bank's earnings will be marginally impacted from the operating losses and will not materially impact the overall safety and soundness of the bank.

Management of the proposed facility is Thomas Ensrud, who is currently on the Board of Directors of McVile State Bank. Mr. Ensrud has owned and operated a hardware store in McVile for 30 years and was responsible for the daily operations, including decisions on extending credit and collection of accounts. Mr. Ensrud has been on the Board of Directors of McVile State Bank since January 2000, and it is anticipated the facility will employ two full-time equivalent employees.

Other banks and facilities are detailed within Section 2 of the application, as well as the trade area for the proposed facility. The Department has received no comments concerning the application, and in Schedule 3 of the application the applicant indicates approval of the application will not seriously injure other banks. The applicant further states the people within the proposed trade area currently bank at one of several area banks and, therefore, no single bank would be seriously affected.

Chairman Karsky indicated the recommendation is that the Department believes the convenience and needs of the application is somewhat weak, but the applicant did supplement the application; therefore, the Department recommends the application by McVile State Bank to establish a facility at 321 Hwy 15, Northwood, be approved.

Chairman Karsky asked if President Moon would like to add any comments. President Moon indicated approximately one year prior the bank was approached by an individual from Northwood asking them to establish a facility in Northwood. President Moon indicated in his research it appears that about one-third of the deposits from the Northwood area have disappeared over the last 10-year period. President Moon indicated in 1994 the two bank facilities that are located in Northwood had \$43 million in deposits and at the end of June 2004 that dropped to \$28 million. President Moon indicated the reason for the decline appears to be poor service and excessive fees; therefore, there is a need for a new facility.

Member Moldenhauer asked how many of the people indicating support on the petition are currently customers of the bank, and President Moon indicated none of the supporters are current customers. Member Moldenhauer asked if there are any business customers from Northwood that currently bank with McVile State Bank, and President Moon indicated approximately 12 of the businesses from Northwood are customers. Member Moldenhauer asked where Mr. Ensrud lives, and President Moon stated he currently lives in McVile and at the present time will drive bank and forth to Northwood. President Moon indicated the teller he has hired is from the Northwood area. Member Moldenhauer asked if Mr. Ensrud plans to move to Northwood at some point, and President Moon indicated yes. Member Moldenhauer asked the population of Northwood, and President Moon indicated it is approximately 900 people. Member Moldenhauer asked what the population of McVile is, and President Moon indicated it is 475. Member Moldenhauer referred to the \$50,000 for leasehold improvement and asked

whether there were any bids and if this was a solid figure. President Moon indicated the bank had not received any bids, and added that a local contractor will do the work and most of the money will be used for equipment.

Member Monson indicated the application notes two full-time employees and asked whether they would have computer connections to the main bank. President Moon stated they would not and that currently he does not provide computer connections at the bank's two other facilities; however, this is something the bank is exploring at the present time. Member Monson noted that the cost of occupancy is fairly low, and President indicated they do try to keep their occupancy costs low, adding that most of the back office work will be done at the main bank location in McVile. President Moon indicated using the other facilities as comparisons he does not see any big costs involved.

Chairman Karsky asked President Moon if Mr. Ensrud would be the main lender at the Northwood facility, and President Moon stated yes; however, everything would come through the main bank. Chairman Karsky asked what Mr. Ensrud's lending authority would be, as to whether the bank had thought about that, and President Moon stated they had not. President Moon stated Mr. Ensrud could approve small car loans; however, any bigger lines of credit would have to be approved by President Moon and Dan Rorvig at the main bank.

Chairman Karsky indicated one of his concerns is that hopefully the Board of Directors will set a low lending limit for Mr. Ensrud since he does not have a great deal of lending experience. President Moon indicated that could be done.

Member Quale indicated the lease states the tenant will pay the heat and utilities, and asked if that was included in the projections. President Moon indicated it was, and Member Quale questioned where the lease expense is in the projection because the first year indicates the expense of premise of \$2,000 and in the second year it is \$5,000. President Moon indicated it would be included in other expenses.

It was moved by Member Braseth and seconded by Member Moldenhauer to approve the application by McVile State Bank, McVile, to establish a facility at 321 Hwy 15, Northwood, and to authorize Chairman Karsky to sign the Order on behalf of the Board. The motion was unanimously carried.

President Moon left the conference call at 9:20 a.m.

**FIRST INTERNATIONAL BANK & TRUST, WATFORD CITY –
AMENDED ORDER TO CHANGE ADDRESS OF ITS FARGO FACILITY**

Assistant Commissioner Entringer noted that the Department had received a letter from 1st International Bank & Trust indicating the City of Fargo assigned a new property address to the bank's facility to be established in Fargo. The legal description for the property remains the same; however, the city did assign a new address.

Chairman Karsky stated this is basically a housekeeping procedure, noting that the bank did not err since it was a change made by the City of Fargo.

It was moved by Member Quale, seconded by Member Monson, and unanimously carried to approve the Amended Order noting the address change from 4554 38th Avenue South, Fargo, to 4501 40th Avenue South, Fargo, for the previously approved facility of First International Bank & Trust, Watford City, and that Chairman Karsky be authorized to sign the Amended Order on behalf of the Board.

**SCANDIA AMERICAN BANK & TRUST, STANLEY – REQUEST TO
TRANSFER \$1,500,000 FROM SURPLUS TO UNDIVIDED PROFITS AND
TO PAY A DIVIDEND OF \$751,000**

Chairman Karsky referred the Board to the May 25, 2005, letter from President Gary Nelson, noting that the request is in anticipation of future dividends from the bank to the holding company. Chairman Karsky noted the bank needs State Banking Board approval to transfer money from surplus to undivided profits, and the reason for the request is the large dividend that was taken at the beginning of the year to facilitate the sale of the bank to United Bancor, Ltd., Dickinson. In order for the bank to declare a dividend the undivided profits have to be sufficient to allow the dividend to be paid.

Chairman Karsky indicated he is only asking the Board to authorize the transfer from surplus to undivided profits, as he can approve the dividend in a separate letter.

It was moved by Member Moldenhauer, seconded by Member Henke, and unanimously carried to approve the transfer of \$1,500,000 from surplus to undivided profits for Scandia American Bank & Trust, Stanley.

ITEMS TO BE NOTED

Federal Reserve Bank

On 4-29-05, approved the application by Security State Bank Holding Company, Jamestown, to acquire 100% of the voting shares of CNB, Inc., Walker, MN, and thereby indirectly acquire Centennial National Bank, Walker, MN.

Comptroller of the Currency

On 6-3-05, received request by Bremer Bank, National Association, Grand Forks, to close its branch located at 102 East McKinley Avenue, Shelly, MN.

Chairman Karsky also noted that effective July 1, 2005, Dakota Community Bank, Hebron, converted to a national bank.

The Board went into closed session at 9:26 a.m.

Timothy J. Karsky, Chairman

Robert J. Entringer, Secretary